

## Message Text

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ORIGIN EUR-25

INFO OCT-01 ADP-00 IO-12 OPIC-12 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 EB-11 FRB-02 H-02 INR-10 INT-08 L-03

LAB-06 NSAE-00 NSC-10 PA-03 RSC-01 AID-20 CIEP-02

SS-15 STR-08 TAR-02 TRSE-00 USIA-12 PRS-01 OMB-01

GAC-01 XMB-07 EA-11 NEA-10 /218 R

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TREASURY - RKORP

EB/ OMA - PBALABANIS

COMMERCE - LFOX ( SUBS)

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WITH ANNEX

1. FOLLOWING IS TEXT OF MEMORANDUM WHICH MISSION SHOULD  
PASS TO SECRETARIAT. CONTRIBUTION OF REFTEL A APPRECIATED.

2. THIS NOTE IS IN RESPONSE TO THE SECRETARIAT'S REQUEST

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FOR VIEWS OF DELEGATIONS ON THE FUTURE WORK OF THE EXECU-  
TIVE COMMITTEE IN SPECIAL SESSION ( XCSS) IN THE INTER-  
NATIONAL INVESTMENT AREA.

SECTION ONE: INVESTMENT AS PART OF GENERAL REFORM OF THE

#### INTERNATIONAL ECONOMIC SYSTEM

THE UNITED STATES CONSIDERS THAT AN INTENSIVE OECD EXAMINATION OF INTERNATIONAL INVESTMENT POLICIES AND ISSUES SHOULD BE AN INTEGRAL PART OF THE OVERALL EFFORT TO REFORM THE INTERNATIONAL ECONOMIC SYSTEM. IN AS MUCH AS QUESTIONS RELATED TO SHORT- TERM CAPITAL FLOWS ARE NOW BEING CLOSELY STUDIED BY THE COMMITTEE OF TWENTY ON INTERNATIONAL MONETARY REFORM, THIS PAPER SHOULD BE UNDERSTOOD AS DEALING LARGELY WITH LONG- TERM INTERNATIONAL INVESTMENT.

POLICIES AFFECTING INVESTMENT HAVE AN IMPORTANT IMPACT ON THE FUNCTIONING OF THE INTERNATIONAL TRADE AND MONETARY SYSTEMS. AT THE SAME TIME, THEIR IMPACT ON INTERNATIONAL INVESTMENT FLOWS THEMSELVES ARE BECOMING MORE IMPORTANT TO GOVERNMENTS. FINALLY, THERE ARE QUESTIONS RELATED TO THE TREATMENT OF FOREIGN INVESTORS AND THE RESULTING IMPACT ON INTERNATIONAL INVESTMENT FLOWS.

THE EFFORT OF THE OECD SHOULD BE DESIGNED TO HELP DEVELOP A BETTER UNDERSTANDING OF INVESTMENT PROBLEMS AND RELATIONSHIPS AS WELL AS A CONCEPTUAL FRAMEWORK FOR ASSESSING THEM. THIS WOULD FORM A BASIS FOR EXPLORING THE NEED AND POSSIBILITY OF DEVELOPING NEW RULES AND MECHANISMS FOR AVOIDING OR RESOLVING CONFLICTS AMONG NATIONAL POLICIES AND INTERESTS IN THE INVESTMENT AREA. THIS WOULD INCLUDE A SYSTEM OF INFORMATION EXCHANGE.

#### 3. SECTION TWO: SOURCES OF DISTORTION

THERE ARE ESSENTIALLY TWO BROAD SOURCES OF DISTORTION AND FRICTION DERIVING FROM POLICIES AND PRACTICES AFFECTING INTERNATIONAL INVESTMENT: A. THE POTENTIALLY DISTORTING EFFECTS OF INVESTMENT RESTRICTIONS, INCENTIVES OR DISINCENTIVES ON INTERNATIONAL TRADE AND THE PATTERN OF INVESTMENT AMONG INDUSTRIES. B. THE IMPACT OF GOVERNMENTAL POLICIES ON THE NATURE AND DIRECTION OF INTERNATIONAL INVESTMENT FLOWS INCLUDING THE NATURE OF TREATMENT ACCORDED BY COUNTRIES TO FOREIGN INVESTORS AT HOME AND TO RESIDENTS WISHING TO INVEST ABROAD.

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#### 4. SECTION THREE: IMPACT OF INVESTMENT POLICIES ON THE PATTERNS OF TRADE AND INVESTMENT.

GOVERNMENT INVESTMENT POLICIES WHICH MAKE IT CHEAPER TO PRODUCE SOME GOODS RELATIVE TO OTHERS DISTORT INTERNATIONAL TRADE FLOWS, MUCH AS CUSTOMS DUTIES DISTORT TRADE BY MAKING IT MORE EXPENSIVE TO IMPORT SOME GOODS RELATIVE TO OTHERS. SUCH POLICIES, OF COURSE, ALSO DISTORT THE PATTERN OF INVESTMENT. TO THE EXTENT SUBSIDIES OR IMPEDIMENTS CAN SHIFT PRODUCTION OF A PARTICULAR COMMODITY FROM ONE COUNTRY TO ANOTHER, THEY CAN AFFECT DOMESTIC EMPLOYMENT AND THE BALANCE OF PAYMENTS OF OTHER COUNTRIES IN THE SHORT RUN, AND THE PRODUCTIVITY OF OTHER ECONOMIES

IN THE LONG RUN.

BROAD AGREEMENT ON WHAT IS REASONABLE IS DESIRABLE IN THIS AREA. OTHERWISE, FOR EXAMPLE, GOVERNMENTS MIGHT BE INCREASINGLY TEMPTED TO USE INVESTMENT POLICIES IN LIEU OF TRADE BARRIERS TO INFLUENCE TRADE FLOWS. SUCH A DEVELOPMENT WOULD UNDERMINE FUTURE PROGRESS TOWARD FREER TRADE, SINCE MANY COUNTRIES MAY PREFER TO OFFSET THE TRADE DISTORTING EFFECTS OF FOREIGN INVESTMENT SUBSIDIES NOT BY PROVIDING SIMILAR SUBSIDIES BUT BY IMPOSING PROTECTIVE BARRIERS AT THE BORDER.

NEUTRAL POLICIES ARE THOSE WHICH AVOID OR "MINIMIZE" DISTORTIONS TO INTERNATIONAL TRADE AND INVESTMENT. UNDER THIS CONCEPT, MARKET ORIENTED ECONOMIC INCENTIVES TO INTERNATIONAL INVESTMENT SUCH AS THE COMPARATIVE PRICES OF CAPITAL, LABOR, TECHNOLOGY AND MANAGEMENT, ARE ALLOWED TO BE THE MAIN DETERMINANTS OF DECISIONS CONCERNING INVESTMENT AMONG DEVELOPED COUNTRIES. DEVIATIONS FROM NEUTRALITY WHICH ARE SUBSTANTIALLY TRADE DISTORTING PROVIDE A PARTICULARLY IMPORTANT DISTORTION. SPECIFIC CRITERIA FOR EVALUATING INVESTMENT POLICIES WHICH HAVE A SUBSTANTIAL IMPACT ON OTHER COUNTRIES WOULD BE DESIRABLE. FOR EXAMPLE WITH RESPECT TO INTERNATIONAL TRADE EFFECTS ONE POSSIBLE APPROACH MIGHT BE TO COMPARE THE VOLUME OF TRADE THAT IS DISPLACED WITH THE VOLUME OF PRODUCTION THAT IS ADDED AS A RESULT OF PARTICULAR MEASURES. ANOTHER APPROACH MIGHT BE TO FOCUS EXCLUSIVELY ON THE DISRUPTION OF TRADE, WITH A VIEW OF DEFINING AN ACCEPTABLE THRESHOLD FOR SUCH DISRUPTION.

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5. SECTION FOUR: POLICIES ON INTERNATIONAL INVESTMENT FLOWS.

THE OECD HAS MADE CONSIDERABLE PROGRESS, OVER THE YEARS IN LIBERALIZING THE EXCHANGE CONTROL AND INVESTMENT REGULATIONS WHICH RESTRICT INVESTMENT OPPORTUNITIES FOR FOREIGNERS BY HOST COUNTRIES AND FOR RESIDENTS BY SOURCE COUNTRIES. IN SOME CASES, HOWEVER, SUCH LIBERALIZATION HAS LOST MOMENTUM AND IN OTHER CASES NEW TYPES OF RESTRICTIONS HAVE TENDED TO ARISE. IT MAY BE DESIRABLE TO GIVE NEW IMPETUS TO THE EXAMINATION OF PRACTICES AFFECTING THE TREATMENT OF INVESTORS. TWO CONCEPTS WHICH HAVE PROVEN USEFUL ARE NATIONAL TREATMENT AND NON-DISCRIMINATION.

NATIONAL TREATMENT MEANS THAT GOVERNMENT POLICIES DO NOT DIFFERENTIATE BETWEEN DOMESTIC AND FOREIGN INVESTORS CONCERNING THE TREATMENT OF FIRMS OR THE INCENTIVES OR DISINCENTIVES GIVEN TO EITHER INWARD OR OUTWARD INVESTMENT. WOULD BE APPLIED EQUALLY TO A DOMESTIC OR FOREIGN INVESTOR.

EXCEPTIONS TO NATIONAL TREATMENT CAN BE DISCRIMINATORY

OR NON-DISCRIMINATORY. NON-DISCRIMINATORY POLICIES  
COULD BE INTERPRETED FOR THIS PURPOSE AS MEANING THOSE  
WHICH DO NOT DIFFERENTIATE IN FAVOR OR AGAINST FOREIGN  
INVESTMENT EITHER WITH REGARD TO NATIONALITY OF THE IN-  
WARD INVESTOR

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